

## Message Text

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ACTION EB-03

INFO OCT-01 SS-14 ISO-00 NSC-05 NSCE-00 INR-05 CIAE-00

OMB-01 TRSE-00 L-01 SP-02 DODE-00 ACDA-10 EUR-08 IO-03

/053 W

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R 301853Z JAN 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6113

C O N F I D E N T I A L SECTION 01 OF 03 BONN 01703

LIMDIS

NOFORN

E.O. 11652: GDS

TAGS: EFIN

SUBJ: DEBT PROBLEMS OF DEVELOPING COUNTRIES

REF: A. STATE 3567; B. BONN 19182; C. BONN 798

1. DURING VISIT TO BONN BY EB/OMA DIRECTOR ROBERT RYAN JAN. 23, DEPUTY ASST. SECY MUELLER-THUNS AND PETER GEHRING IN ECONOMICS MINISTRY OFFERED TO PREPARE A PAPER OUTLINING CURRENT GERMAN THINKING ON HOW TO HANDLE LDC DEBT ISSUE ATUNCTAD -IV. GEHRING HANDED US A NON-PAPER JAN. 29, BUT CAUTIONED THAT WHILE THIS PAPER REFLECTED THE GENERAL LINES OF FRG THINKING, IT WAS NOT A CLEARED POSITION PAPER. (COMMENT: ECONMIN WOULD HAVE TO OVERCOME OBJECTIONS BY BAHR'S ECONOMIC COOPERATION MINISTRY IN DRAWING UP A CLEARED PAPER, BUT THE POSITION SET FORTH IN GEHRING'S PAPER REFLECTS VIEWS OF ALL OTHER INTERESTED MINISTRIES. (SEE REFS B AND C.) MOREOVER, ECONMIN HAS PRIMARY RESPONSIBILITY WITHIN FRG FOR DEBT POLICY ISSUES.) EXISTENCE OF THIS  
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PAPER SHOULD BE TREATED AS NOFORN AND SHOULD NOT

BE REVEALED TO OTHER FRG OFFICIALS. EMBASSY'S  
TRANSLATION FOLLOWS:

2. BEGIN QUOTE:

A. THE FEDERAL GOVERNMENT IS OF THE OPINION THAT THE DEBT QUESTION WILL BE ONE OF THE CENTRAL POINTS OF DISCUSSION DURING UNCTAD-IV IN NAIROBI. ALTHOUGH IT WAS RECOGNIZED IN PREPARATORY INTERNATIONAL DISCUSSIONS -- ESPECIALLY WITHIN THE FRAMEWORK OF UNCTAD -- THAT THE OVERWHELMING NUMBER OF INDUSTRIAL NATIONS SEE NO POSSIBILITY OF MAKING ADDITIONAL CONCESSIONS BEYOND THOSE DEVELOPED BY THE UNCTAD GROUP OF GOVERNMENT EXPERTS, THE GROUP OF 77 WILL PLACE GREAT POLITICAL WEIGHT ON ADDITIONAL CONCESSIONS.

B. BASICALLY THE STANCE OF THE G-77 WILL BE BASED ON A FACTUAL AND A TACTICAL ARGUMENT:  
-- FACTUALLY, IT IS UNCONTESTABLE THAT, AS A CONSEQUENCE OF THE DRAMATIC ENERGY PRICE INCREASES AND OF THE WORLD-WIDE RECESSION, A LARGE NUMBER OF LDCS, NOT ONLY THE LLDCS, BUT ALSO COUNTRIES IN THE TAKE-OFF ZONE WHICH HAVE INCREASED ENERGY REQUIREMENTS, HAVE COME INTO BALANCE OF PAYMENTS AND TRANSFER DIFFICULTIES. THE DESIRABILITY OF SPECIFIC AID IN THESE CASES IS RECOGNIZABLE.

-- IN MOST OTHER AREAS WHICH WILL BE DEALT WITH BY UNCTAD IV, THE INDUSTRIAL COUNTRIES WILL BE ABLE TO MAKE ONLY A FEW CONCESSIONS OF SUBSTANCE. THE G-77 WILL EXPECT THAT THE GROUP B WILL WANT TO AVOID A FAILURE OF UNCTAD IV. THIS MAY RESULT IN SPECULATION THAT THE GROUP B WILL GIVE IN ON THE INDEBTEDNESS ISSUE, ESPECIALLY SINCE THE FIRST APPARENT BREACHES OF A UNIFORM POSITION HAVE ALREADY BECOME VISIBLE THROUGH THE DUTCH INITIATIVE.

C. IN REPLY TO THE ARGUMENT FOR INCREASED AID REQUIREMENTS, THERE ARE THEORETICALLY TWO POSSIBILITIES: DEBT RESCHEDULING AND RENUNCIATION OR PARTIAL RENUNCIATION OF PENDING CLAIMS, OR NEW ADDITIONAL AID. THE FRG IS WILLING TO EXAMINE IN APPROPRIATE INDIVIDUAL CASES THE NECESSITY OF CONFIDENTIAL

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FACILITATING DEBT SERVICING THROUGH A DEFERMENT OF THE TRANSFER -- AND WHERE APPROPRIATE TO APPROVE PERTINENT CASES. A COMPLETE RENUNCIATION OF CLAIMS HAS NOT YET BEEN CONCEDED, AND IT WILL BE EXCLUDED ALSO IN THE FORESEEABLE FUTURE, AT LEAST FOR TRADE DEBTS; IN THE CASE OF CAPITAL AID DEBTS, THIS RAISES A SERIOUS BUDGETARY PROBLEM.

D. IN ANY CASE, THE GERMAN SIDE WILL EMPHATICALLY

INSIST ON EXAMINING ON A CASE-BY-CASE BASIS THE  
NECESSITY, THE EXTENT AND THE TERMS FOR DEBT RE-  
SCHEDULING AND ON MAKING A DECISION ON A MULTI-  
LATERAL BASIS, IF POSSIBLE WITH THE COOPERATION

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R 301853Z JAN 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6114

C O N F I D E N T I A L SECTION 02 OF 03 BONN 01703

LIMDIS

OF THE IMF. AUTOMATICITY CONCERNING THE NEED AND  
TERMS OF DEBT RESCHEDULING ARE UNEQUIVOCALLY  
REJECTED FOR:

- FACTUAL REASONS (EACH CASE HAS TO BE ASSESSED  
DIFFERENTLY AND REQUIRES INDIVIDUAL ACTION);
  - LEGAL REASONS (IN MANY CASES, THE GOVERNMENT IS  
NOT THE LEGAL HOLDER OF CLAIMS FROM COMMERCIAL  
DEBTS);
  - AND POLITICAL REASONS.
- E. THE DUTCH PROPOSAL DOES NOT APPEAR ACCEPTABLE  
BECAUSE
- IT WILL REQUIRE, AMONG OTHER THINGS, ADDITIONAL  
FINANCIAL CONTRIBUTIONS FROM DONOR COUNTRIES  
WHICH WOULD THEN NOT BE AVAILABLE FOR PROPER  
"ACTIVE" DEVELOPMENT AID;
  - BY INCLUDING MORE THAN 40 COUNTRIES INTO A MORATO-  
RIUM, THE PRINCIPLE OF A CASE-BY-CASE TREATMENT  
WOULD BE YIELDED AND AUTOMATICITY WOULD BE INTRO-

DUCED INTO DEBT RESCHEDULING.  
-- IT MAY POSSIBLY DIMINISH THE CREDIT-STANDING OF  
THE DEVELOPING COUNTRIES CONCERNED;  
-- IT DOES NOT PROVIDE FOR AN ADEQUATE BURDEN-  
SHARING FROM STATE TRADING COUNTRIES.  
HOWEVER, WE DO NOT BELIEVE THAT, GIVEN THE TACTICAL  
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IMPORTANCE OF THE DUTCH PROPOSAL, IT WILL BE  
POSSIBLE IN INTERNATIONAL DISCUSSIONS TO PREVENT  
ITS FURTHER CONSIDERATION IN NAIROBI OR IN LATER  
DEBT RESCHEDULING CONFERENCES. THEREFORE,  
WE SHOULD TRY TO MAKE CLEAR THAT THE PROPOSAL  
PLAINLY REPRESENTS A MINORITY VOTE WITHOUT POLITICAL  
CONSEQUENCES FOR THE MAIN CREDITORS.

F. AS TO THE PROCEDURAL QUESTION, THE FRG SEES  
CERTAIN BUT LIMITED POSSIBILITIES OF ADVANCEMENT.  
HOWEVER, IT IS OF THE OPINION THAT THE PAST PROCEDURE  
-- FURTHER DEVELOPED THROUGH THE PROPOSALS OF THE  
UNCTAD GROUP OF GOVERNMENT EXPERTS -- IS BY ALL  
MEANS PRACTICABLE AND THAT IT MEETS THE REQUIREMENTS  
OF BOTH SIDES. IN SPITE OF A POSSIBLE PREPARATORY  
CONFERENCE AND COOPERATION IN /UNCTAD, IT 'ACAN BE  
XPECTED THAT THE PRESENT SET-UP OF DEBT R.E-  
SCHEDULING THROUGH A PURE CREDITORS' CLUB WILL BE  
ATTACKED BY THE DEVELOPING COUNTRIES IN NAIROBI.

G. THE FRG BELIEVES THAT AT LEAST TWO SOLUTIONS  
WILL NOT BE ACCEPTABLE:  
--THE ESTABLISHMENT OF A NEW DEBT AND RESCHEDULING  
ORGANIZATION (HIGHCOST AND TOO GREAT A PRESSURE  
ON THE CREDITORS WOULD HAVE TO BE EXPECTED;  
--DEBT RESCHEDULING WITHIN THE FRAMEWORK OF UNCTAD  
(THIS ORGANIZATION HAS OTHER RESPONSIBILITIES).

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TO SECSTATE WASHDC 6115

C O N F I D E N T I A L SECTION 03 OF 03 BONN 01703

LIMDIS

H. THE QUESTION AS TO WHETHER WE CAN ACCEPT A RENUNCIATION OF DEBT RESCHEDULING BY CREDITOR CLUBS IS MORE DIFFICULT. WE ARE OF THE OPINION THAT THE PROPOSALS BY THE UNCTAD GROUP OF EXPERTS HAVE CLEARLY CORRECTED THE DISEQUILIBRIUM BETWEEN CREDITORS AND DEBTOR COUNTRIES WHICH MAY HAVE EXISTED ORIGINALLY. HOWEVER, IT IS CONCEIVABLE THAT THE FRG WOULD LOOK FOR NEW SOLUTIONS. ONE COULD THINK E.G., ABOUT DEBT RESCHEDULING UNDER THE AEGIS OF THE IMF OR THE WORLD BANK. THIS SHOULD SATISFY THE EFFORTS OF THE G-77 TO HAVE NEUTRAL NEGOTIATIONS, AND IT MIGHT ALSO BE ACCEPTABLE TO THE CREDITORS. THIS IDEA WILL HAVE TO BE EXAMINED FURTHER. A PROPOSAL IN THIS RESPECT SHOULD NOT BE MADE UNLESS IN CASE OF AN EMERGENCY.

I. THE NEGOTIATIONS IN NAIROBI SHOULD BE PREPARED CAREFULLY AND COORDINATED EARLY ENOUGH WITHIN GROUP B. THE FRG BELIEVES THAT THE PROPER PLACE TO DO THIS LIES IN THE DAC GROUP ON FINANCIAL ASPECTS. THEREFORE, IT ATTRIBUTES PARTICULAR IMPORTANCE TO THE MEETING ON FEBRUARY 17 TO 20, 1976 AND IT WOULD WELCOME A PARTICIPATION OF US EXPERTS.

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J. THE ABOVE CONSIDERATIONS WILL BE REVIEWED IN THE COURSE OF THE PREPARATIONS OF UNCTAD IV AND FOR ANY DEBT CONFERENCE THAT MAY TAKE PLACE AFTERWARDS; AND THEY MAY BE MODIFIED, WHEN APPROPRIATE. END QUOTE.

3. GEHRING TOLD US THAT HE PLANNED TO USE IDEAS SET FORTH IN ABOVE PAPER IN DISCUSSION OF DEBT ISSUE AT EXPERTS MEETING WHICH WILL PRECEDE FEBRUARY 19-20

MEETING OF DAC WORKING GROUP ON FINANCIAL ASPECTS.

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